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## SPECIAL REVENUE FUNDS

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### Anti-Tobacco Master Settlement Agreement Revenue Fund

The attorneys general of most states and the major United States tobacco companies agreed to settle more than 40 pending lawsuits brought by states against the tobacco industry. This fund accounts for monies received through the Master Settlement Agreement (MSA) signed by parties to the lawsuit on November 23, 1998.

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***Anti-Tobacco Master  
Settlement Agreement  
Revenue Fund***

<b>(\$000s)</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 15,034	\$ 12,868	\$ (2,166)	(14.4%)
<i>Expenditure</i>	17,534	15,016	2,518	14.4%
<i>Fund Balance (est. *)</i>	1,993 *	3,009	1,016	51.0%

The \$2.2 million revenue variance is primarily the result of lower than budgeted receipt of a loan from the Sewage Treatment Plant Connection Fee Fund (\$2.5 million received, \$4.8 million budgeted) and interest earnings (\$52,000 variance), offset by higher than budgeted revenue from the master tobacco settlement payments (\$186,000). A short-term loan of \$4.8 million was budgeted from the Sewage Treatment Plant Connection Fee Fund for cash flow purposes in this fund, given the fact that revenue from the national settlement is not received until late Spring. The amount borrowed was \$2.3 million less than anticipated due to the timing of reimbursement requests. In addition, the amount of each tobacco settlement payment is difficult to estimate and subject to change depending on a number of factors including inflation, sales by the tobacco industry, and changes in market shares of the settling tobacco companies. Thus, variances between the projected and actual amounts are likely to occur and unable to be anticipated.

The expenditure variance of \$2.5 million reflects unexpended project funds. This is primarily from lower than expected expenditures for the Sewage Treatment Plant Connection Fee Fund loan repayment, the Homework Centers, Administrative Costs, Addressing Gaps in Aging Services project, Local Enforcement of Tobacco Control project and interest payments related to the loan from the Sewage Treatment Plant Connection Fee Fund.

The 2004-2005 ending fund balance is higher than estimated due primarily to unexpended project funds and offset by a smaller short-term loan provided than anticipated, as discussed above.

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## SPECIAL REVENUE FUNDS (CONT'D.)

### Benefit Funds

The Benefit Funds consist of the Dental Insurance, Life Insurance, Unemployment Insurance, and Benefit Fund. These funds account for the provision and financing of benefits to City employees, retirees, and their dependents.

#### ***Introduction***

The Benefit Funds are designed to generate revenues sufficient to cover administrative costs, anticipated claims, expenditures and the claims reserve for each fund when applicable. Benefit rates are then determined to produce the necessary revenues to cover the projected costs.

These funds are not designed to carry significant unrestricted fund balances, though they do carry adequate claims reserves. Therefore, when unrestricted fund balances are realized as a result of higher revenues than expenditures in a particular year, the budgets for the following year are developed with the intention of reducing those balances through downward rate adjustments. Conversely, rates are increased to augment claims reserves as needed.

<b><i>Benefit Funds</i></b> <b><i>(\$000s)</i></b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 61,490	\$ 60,376	\$ (1,114)	(1.8%)
<i>Expenditure</i>	65,563	59,968	5,595	8.5%
<i>Fund Balance (est. *)</i>	5,200 *	5,829	538	10.3%

#### ***Overview of 2004-2005 Activity by Fund***

- Dental Insurance Fund: Revenues were above the modified budget (\$9.7 million) by 4% or \$410,000. Revenues were slightly higher than anticipated due to higher interest earnings and higher than budgeted participation from retirees and part-time employees in the dental plan. Expenditures were below budget by \$494,000 (4%). The positive expenditure variance reflects claims costs which were lower than anticipated for the Delta Dental Plan, and lower than expected expenditures for the prepaid dental plan. The fund balance exceeded estimated levels by \$230,000 due primarily to the lower than anticipated claims costs associated with the Delta Dental Plan.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Benefit Funds (Cont'd.)

- Life Insurance Fund: Revenues ended the year at slightly lower than the budgeted level (1% or \$17,000). Expenditures were \$75,000 or 4% lower than budgeted. The variance in expenditures was mainly due to savings in non-personal/equipment and in life insurance premiums. Although revenue came in at slightly lower than budgeted, the year-end fund balance was higher than estimated (\$51,000) due to lower levels of actual expenditures.
- Unemployment Insurance Fund: Revenues ended the year below the modified budget level by 10% or \$166,000. Revenues were lower than budgeted due to lower collections through the interfund charge process. Expenditures were \$618,000 lower than the modified budget level of \$1.4 million largely due to the lower than budgeted level of unemployment claims. The fund balance exceeded estimated levels by \$80,000, reflecting the higher than estimated expenditure savings.
- Benefit Fund: Revenues and expenditures within this fund represent the amount City departments contribute to several specific employee benefits. Health coverage is the largest of the benefits, but also included are revenues and expenditures for Municipal Employees Federation legal assistance, Operating Engineers Local 3 vision care, FICA-Medicare payments, PTC-457 Program (part-time, temporary and contractual employees contributions for retirement), General Employee Vision and Employee Assistance Program counseling.

Revenues ended the year below the modified budget level by 3% or \$1.3 million and expenditures were slightly lower than anticipated by 3% or \$1.5 million. This is primarily due to lower than budgeted revenues and expenditures related to health coverage, FICA-Medicare payments, and deferred compensation payments for part-time, temporary and contract employees.

The fund balance was higher than estimated levels by \$268,000. This primarily reflects the combined impact of lower than estimated expenditures and lower than anticipated revenues.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Community Development Block Grant Fund

This fund accounts for federal grant monies received from the U.S. Housing Urban and Development Department under Title II of the Housing and Community Development Act of 1974 and Rental Rehabilitation Program funds.

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***Community  
Development  
Block Grant Fund***

<b>(\$000s)</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 13,646	\$ 13,733	\$ 87	0.6%
<i>Expenditure</i>	20,853	16,428	4,425	21.2%
<i>Fund Balance (est. *)</i>	4,982 *	8,435	3,453	69.3%

The \$87,000 revenue variance is primarily the result of higher than anticipated collections related to loan repayments and miscellaneous revenues. Specifically, additional revenue of approximately \$195,000 resulted from an increase in economic development assistance loan and pre-development loan repayments and miscellaneous revenue, which was offset by lower than anticipated revenue from housing rehabilitation loan repayments (\$108,000). Revenue from the Pre-development Loan Program and the Economic Development Assistance Program are recommended in this report to be reinvested for use in those programs.

The \$4.4 million expenditure variance reflects unexpended project funds. Of this amount, \$1.1 million was rebudgeted into 2005-2006 as part of the Adopted Operating Budget. The projects rebudgeted include Greater Gardner Street Reconstruction (\$260,000), Gateway East Sanitary Sewers (\$73,000), Blackford Storm Drain Improvements (\$49,000), Kidango Linda Vista Children's Center Renovations (\$193,000), One-Way Couplet Conversion/Historic Lighting (\$200,000), Welch Park Improvements (\$200,000) and Therapeutic Recreation and Wellness Facility Pre-Development Study (\$100,000).

Additional rebudgets of \$2.5 million of unexpended funds are recommended in this report. The following is a partial list of projects recommended to rebudget: 11<sup>th</sup> and William Street Park Acquisition (\$650,000), Greater Gardner Street Reconstruction (\$701,000), O'Connor Park Restroom (\$249,000), Predevelopment Loan Program (\$229,000), and Goss Community Center (\$200,000). Additional minor savings occurred in many of the Fund's appropriations.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Community Development Block Grant Fund (Cont'd.)

The 2004-2005 ending fund balance is \$3.5 million higher than estimated primarily due to the expenditure savings described above. As mentioned above, \$1.1 million of these savings were rebudgeted in the Adopted Operating Budget. Of the remaining variance, a majority of this amount is recommended in this report to be used to rebudget various projects.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Community Facilities Revenue Fund

The Community Facilities Revenue Fund was established to account for the financing and operation of the Hayes Conference Center.

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***Community Facilities  
Revenue Fund***

<b>(\$000s)</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 7,800	\$ 5,169	\$ (2,631)	(33.7%)
<i>Expenditure</i>	11,532	8,840	\$ 2,692	23.3%
<i>Fund Balance (est. *)</i>	750 *	829	\$ 79	10.5%

Effective January 1, 2004, Dolce International/San José, Inc. (Dolce) was appointed the new manager of the facility under the terms of a ten-year (with options to extend) management agreement with the City. As part of the agreement, Dolce transfers the necessary money from Hayes Mansion operations to this fund for debt service and to reimburse the City for some operating costs, such as insurance.

The \$2.6 million revenue variance and \$2.7 million expenditures variances are both due to a technical error. When developing the 2004-2005 Adopted Operating Budget, revenue and expenditure estimates were based on the old operator. Equal adjustments to revenues and expenditure should have occurred to reflect the agreement with Dolce, resulting in a net zero impact to the fund.

In developing the 2005-2006 Adopted Operating Budget, revenue and expenditure projections in the fund revealed that revenues and draws from a line of credit with Comerica Bank would not be sufficient to cover all costs. An earmarked reserve of \$1.6 million was established in the General Fund to subsidize a portion of the debt service payments for the Hayes Mansion, if necessary. Projections for 2005-2006 indicate that these funds are now necessary. Although there is some improvement in revenues for 2005-2006 compared to 2004-2005, revenue performance is not expected to occur at a level sufficient to fully cover operating expenses plus debt service on the Hayes Mansion bonds. Therefore, a reallocation of the \$1.6 million Hayes Mansion earmarked reserve in the General Fund to this fund is recommended in this report to assist in the payment of debt service for the facility in the coming year. It is still expected that this \$1.6 million, along with the \$6.0 million loan, will eventually be repaid to the City.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Community Facilities Revenue Fund (Cont'd.)

The 2004-2005 ending fund balance is \$79,000 higher than estimated primarily due to expenditure savings. The fund balance is intended to remain in reserve for future debt service payments.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Convention and Cultural Affairs Fund

The Convention and Cultural Affairs Fund was established to account for operations of the San José McEnery Convention Center, the Center for the Performing Arts (CPA), Civic Auditorium, Montgomery Theater, Exhibit Hall and their related facilities and grounds.

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***Convention and  
Cultural Affairs Fund***

	<b>(\$000s)</b>				
	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>	
<i>Revenue</i>	\$ 15,288	\$ 12,878	(2,410)	(15.8%)	
<i>Expenditure</i>	13,242	12,628	614	4.6%	
<i>Fund Balance (est. *)</i>	68 *	(241)	(309)	(454.4%)	

The Convention and Cultural Affairs Fund accounts for the operation of the City's Convention Facilities that are managed by Team San José. In 2004-2005, activity at the Convention Facilities did not generate the anticipated revenues. The actual revenue collections were \$2.4 million below the budgeted level due to lower than anticipated space rental and concessionary income (\$2.1 million) and parking fees (\$332,000). It should be noted that the parking fee shortfall is overstated by \$148,000 due to a booking error that will be corrected as part of this report. In addition, all of the invoices were not completely processed for the City's use of various Convention Facilities. Funding is provided by the City to reimburse the operator for their use. Approximately \$160,000 was remaining at the end of 2004-2005. It is anticipated that these funds will be received in 2005-2006.

Expenditures in this fund ended the year with savings of \$614,000 (4.6%). The majority of this positive variance was due to personal services vacancy savings (\$232,000), and lower than budgeted expenditures in non-personal/equipment (\$240,000).

Almost all of the 2004-2005 combined revenue shortfall and expenditure savings was assumed in the development of the 2005-2006 Adopted Operating Budget. As a result, the actual 2004-2005 ending fund balance in this fund was only \$309,000 below the estimate used in the 2005-2006 Adopted Operating Budget. This shortfall will be offset by a transfer from the Transient Occupancy Tax Fund based on higher Transient Occupancy Tax collections in 2004-2005 (\$170,000) and a transfer from the General Purpose Parking Fund to fully account for parking fees earned in 2004-2005 (\$148,000).



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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Home Investment Partnership Program Fund

The Home Investment Partnership Program Act, enacted by Congress in 1990, established a program of federal assistance to State and local governments for affordable housing projects. The City established the Home Investment Partnership Program Fund (HOME) in 1993-1994 to utilize the available federal funding for activities associated with housing rehabilitation and new construction. This fund is also utilized for federal Rental Rehabilitation Program activities.

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***Home Investment  
Partnership Program  
Fund***

**(\$000s)**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 9,810	\$ 3,869	\$ (5,941)	(60.6%)
<i>Expenditure</i>	12,870	6,167	6,703	52.1%
<i>Fund Balance (est. *)</i>	5,567 *	965	(4,602)	(82.7%)

The expenditures in this fund are primarily allocated as loans and grants for the development of affordable housing. The U.S. Department of Housing and Urban Development (HUD), the main funding agent, allows the Housing Department a maximum of two years to commit to a project and two more years for completion of a project.

Generally, variances in revenue and expenditures are due to delays in the development of housing projects that qualified for federal funds. As expenditures are incurred, HOME funds are disbursed to the City as reimbursement revenue. For 2004-2005, the revenue and expenditure variances are due primarily to the unanticipated continuing delay of the San Carlos Senior Housing project (\$6.61 million) originally scheduled to begin in 2003-2004. The Housing Department is working with the developer to begin this project in 2005-2006. The majority of the expenditures that occurred in 2004-2005 were used to fund first-time homebuyer loans for San José teachers and to provide continued funding to the Eden Palms project for persons with developmental disabilities.

The negative variance in fund balance is primarily due to a restatement of the 2004-2005 beginning fund balance. In reconciling the fund's 2004-2005 ending fund balance, it has been determined that the 2003-2004 ending fund balance/2004-2005 beginning fund balance was overstated. A restatement of the Home Investment Partnership Program Fund's 2004-2005 beginning fund balance is recommended in order to align with the City's audited financial statements.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Housing Trust Fund

The Housing Trust Fund was established to assist non-profit service providers and organizations by providing one-time grants for housing and homeless related projects.

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***Housing  
Trust Fund***  
**(\$000s)**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 3,512	\$ 2,619	\$ (893)	(25.4%)
<i>Expenditure</i>	3,253	1,242	2,011	61.8%
<i>Fund Balance (est. *)</i>	2,986 *	3,372	386	12.9%

This fund was established with an initial balance of almost \$2.0 million in one-time funds from the defeasance of 1983 through 1985 Single Family Mortgage Revenue Bonds. It has no identified source of ongoing funding. Over the years, however, additional funding has been allocated from various sources such as bond administration fees, tax credit application review fees, and in-lieu fees from housing developers in Redevelopment Project Areas, among others. These funding sources are, however, by their nature unpredictable.

In 2003-2004, the City received State approval for a \$1.5 million grant from Proposition 46 funds. The grant was contingent upon the City committing \$1.5 million in matching funds for new construction projects. The revenue and expenditure variances in this fund were due primarily to various projects related to this grant which have been deferred. It is anticipated that project expenses and subsequent reimbursements for this grant will occur in 2005-2006.

The 2004-2005 ending fund balance variance of \$386,000 is the result of unanticipated revenues from in-lieu fees from housing developers and expenditure savings.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Integrated Waste Management Fund

The Integrated Waste Management (IWM) Fund was established effective July 1, 1994. The fund collects revenues from the City's Recycle Plus program and through fees on other solid waste services as authorized by AB 939, the State law requiring cities to reduce waste landfill by 50% by the year 2000 and maintain this diversion rate every year thereafter. This fund is expended for programs related to the City's efforts to comply with that law, along with other integrated waste management services.

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***Integrated Waste  
Management Fund***

<b>(\$000s)</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 80,216	\$ 75,948	\$ (4,268)	(5.3%)
<i>Expenditure</i>	89,516	80,891	\$ 8,625	9.6%
<i>Fund Balance (est. *)</i>	9,793 *	9,944	\$ 151	1.5%

Revenue ended the year approximately 5.3% lower (\$4.3 million) than the modified budget level. The negative variance primarily resulted from lower than budgeted commercial paper proceeds related to the Consolidated Utility Billing System (\$7.0 million) now expected to be received in 2005-2006; Recycle Plus collections related to single-family dwellings (\$158,000), bulky goods and excess trash collections (\$187,000); and lower than expected revenues from the County (\$90,000). This negative revenue variance is partially offset by higher than anticipated revenues from Recycle Plus collections related to multi-family dwellings (\$2.3 million). The revenue estimate assumed at the development of the 2004-2005 Adopted Operating Budget had assumed a reduction in multi-family dwelling garbage service that did not occur during the year. In addition, higher than anticipated AB939 Franchise Fee collections (\$327,000), interest earnings (\$361,000), and lien-related charges collected by the Finance Department (\$253,000) partially offset the negative revenue variance.

Expenditures in this fund ended the year with savings of \$8.6 million (9.6%). The majority of the positive variance resulted from the continuation of the Consolidated Utility Billing System (\$5.7 million) into 2005-2006. These funds were brought forward to City Council and rebudgeted in September 2005. In addition, savings occurred in the Environmental Services Department (\$2.4 million) due to non-personal/equipment savings (\$1.1 million) related to marketing outreach and program activities, lower than anticipated yard waste and street sweeping contract costs (\$794,000), and vacancy savings (\$500,000). A portion of these savings (\$182,000) was reallocated the Consolidated Utility Billing System project, approved by the City

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Integrated Waste Management Fund (Cont'd.)

Council on August 30, 2005. As part of this document, additional savings are recommended for rebudget to 2005-2006 for marketing support for the Consolidated Utility Billing System (\$140,000).

The Integrated Waste Management Fund ended the year with a higher than estimated fund balance (\$151,000) due to higher than expected expenditure savings (\$2.5 million) partially offset by lower than anticipated revenues (\$2.3 million) as described above. A portion of the \$9.9 million ending fund balance was set aside as a reserve for the Consolidated Utility Billing System in order to stabilize potential future rate increases after the project comes online. An additional \$1.5 million was set aside as a contingency reserve.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Library Benefit Assessment District Fund

The Library Benefit Assessment District (BAD) program was approved by City Council following an advisory measure on the November 1994 ballot. The BAD program provides needed funding to acquire new books and materials, to improve educational programs, and to repair and upgrade libraries. The benefit assessment fee began in 1995-1996 and was to be collected for a period not to exceed 10 years. 2004-2005 is the tenth and final implementation year of the Library Benefit Assessment. In anticipation of the 2004-2005 sunset, the City included a measure in the November 2004 election for a new tax beginning in 2005-2006. The measure passed, therefore, starting in 2005-2006 the Library Parcel Tax will replace the Library Benefit Assessment District.

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***Library Benefit  
Assessment District  
Fund***

<b>(\$000s)</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 6,140	\$ 6,234	\$ 94	1.5%
<i>Expenditure</i>	7,720	5,277	2,443	31.6%
<i>Fund Balance (est. *)</i>	663 *	2,822	2,159	325.6%

The BAD revenues had a positive variance between budgeted and actual revenues of \$94,000 (1.5%) primarily due to higher than anticipated assessment collections. Of the \$7.7 million in budgeted expenditures, \$3.2 million (42%) was allocated for capital projects and \$4.5 million (58%) for the Library Department's operating expenses. Total expenditures ended the year \$2.4 million below the budget. Year-end operating expenses were \$1.2 million less than budgeted due to vacancy savings and non-personal/equipment savings. A total of \$70,000 was rebudgeted in the 2005-2006 Adopted Operating Budget for non-personal/equipment costs, and an additional \$792,000 for personal services and \$390,000 for non-personal/equipment are being recommended for rebudget as part of this document to provide sufficient funding in 2005-2006.

BAD funded capital projects generated savings of \$1.2 million. This variance between budgeted and actual expenditures was due primarily to Acquisition of Materials (\$1.1 million) and Automation Projects (\$57,000). The department uses these funds to purchase new materials for branches and the Martin Luther King, Jr. Library, and to install and maintain internet and on-line reference sources for public use. Of the capital savings, a total of \$267,000 was rebudgeted in the 2005-2006 Adopted Capital Budget for the Acquisition of Materials project and \$40,000 was

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Library Benefit Assessment District Fund (Cont'd.)

rebudgeted for Automation Projects. Additionally, \$881,000 is recommended for rebudget in this document to provide sufficient funding in 2005-2006 for the Acquisition of Materials project and the Automation Project.

The higher ending fund balance is attributed to lower than estimated expenditures (\$2.1 million) and higher than estimated revenues (\$94,000). As discussed above, \$2,063,000 of this additional fund balance is recommended to be rebudgeted to 2005-2006 to cover Library operating and capital expenditures.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Low and Moderate Income Housing Fund

The Low and Moderate Income Housing Fund accounts for the 20% tax increment monies received from the San José Redevelopment Agency for the purposes of increasing and improving the supply of low- and moderate-income households in the City of San José.

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***Low and Moderate  
Income Housing  
Fund***

***(\$000s)***

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 121,500	\$ 89,867	\$ (31,633)	(26.0%)
<i>Expenditure</i>	127,809	96,392	31,417	24.6%
<i>Fund Balance (est. *)</i>	4,820 *	14,864	10,044	208.4%

Total revenue received in this fund in 2004-2005 was lower than budgeted primarily for two reasons. First, only \$14.4 million of the \$34 million budgeted for the Line of Credit was utilized. Second, net bond proceeds of \$30.6 million were issued instead of the budgeted \$50 million as a result of the decrease in tax increment proceeds received and decreased project funding requirements in 2004-2005. Offsetting those decreases were loan repayments, interest income and miscellaneous revenue of approximately \$7.0 million higher than budgeted.

Correspondingly, expenditures were lower than budgeted. Debt Service (\$14.5 million of the \$15.5 million budgeted); repayment on Line of Credit (\$30.6 million of the \$37 million budgeted); and Loans, Grants, and Site Acquisitions (\$33 million of the \$57 million budgeted) all ended the year below budgeted levels. The Department continues to limit commitments for new projects in light of its ability to repay debt.

The positive variance in fund balance is primarily due to a restatement of the 2004-2005 beginning fund balance. In reconciling the fund's 2004-2005 ending fund balance, it has been determined that the 2003-2004 ending fund balance/2004-2005 beginning fund balance was understated. A restatement of the Low and Moderate Income Housing Fund's 2004-2005 beginning fund balance is recommended in order to align with the City's audited financial statements.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Multi-Source Housing Fund

The Multi-Source Housing Fund was established July 1, 2003, and is used for revenues and expenditures from various funds such as Rental Rights and Referrals fees, Strong Neighborhoods Initiative (SNI) projects, Supplemental Redevelopment Agency funds, the Housing Opportunities for People with AIDS (HOPWA) grant and others.

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***Multi-Source  
Housing Fund***

***(\$000s)***

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 11,318	\$ 4,615	\$ (6,703)	(59.2%)
<i>Expenditure</i>	16,315	9,727	6,588	40.4%
<i>Fund Balance (est. *)</i>	4,925 *	2,789	(2,136)	(43.4%)

The revenue for this fund is derived from State and federal reimbursements for expenditures incurred for qualifying projects. In 2004-2005, the negative revenue variance of \$6.7 million is due to fewer reimbursements received than budgeted for various programs funded by Supplemental Redevelopment Agency funds and grants. The expenditure variance of \$6.6 million is the result of delays in completing projects; most notably Art Ark and Paseo Senter. A majority of the unspent project expenditures and reimbursement revenues (\$5.0 million) were anticipated and were rebudgeted as part of the 2005-2006 Adopted Operating Budget.

The 2004-2005 ending fund balance variance (\$2.1 million) is the result of lower than anticipated reimbursement revenue and project savings.



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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Municipal Golf Course Fund

The Municipal Golf Course Fund accounts for the construction, management, and operation of City-owned golf courses which include Rancho del Pueblo, Los Lagos and San José Municipal Golf Course, and is financed through user charges.

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***Municipal Golf  
Course Fund***

***(\$000s)***

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 1,221	\$ 1,093	\$ (128)	(10.5%)
<i>Expenditure</i>	1,773	1,592	181	10.2%
<i>Fund Balance (est. *)</i>	52 *	59	7	13.5%

The negative revenue variance of \$128,000 (10.5%) reflects lower than budgeted income from Rancho del Pueblo and Los Lagos Golf Courses.

Contributing factors that have resulted in the reduced revenues of Los Lagos and Rancho del Pueblo Golf Courses appear to include both the impact of local economic slowdown and the increased competition from additional golf courses. Seven new courses have opened up in the San José area and neighboring communities since 1999.

This fund performed as anticipated in 2004-2005 and required a General Fund subsidy of \$650,000. While this fund ended the year within estimated levels, is anticipated that it will require an increase in the General Fund subsidy from the currently budgeted \$750,000 to \$1.25 million in 2005-2006. After the 2005-2006 budget was developed, it was determined that the funding for debt service payments programmed in 2005-2006 is insufficient by approximately \$300,000. In addition, the 2005-2006 revenue estimate of \$850,000 for the Los Lagos Golf Course may be too aggressive based on the actual revenue collections of \$650,000 in 2004-2005. Given these factors, an additional transfer of \$500,000 from the General Fund is recommended in this report to ensure the fund is able to meet all of its financial obligations in 2005-2006.

The 2004-2005 ending fund balance is higher than estimated due primarily to expenditure savings partially offset by lower than anticipated revenues.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Municipal Health Services Program Fund

The Municipal Health Services Program Fund accounts for community-based health care services to Medicare recipients at four San José clinics. Funding for this demonstration project is provided by the federal Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration.

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***Municipal Health  
Services Program  
Fund  
(\$000s)***

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 6,448	\$ 4,542	\$ (1,906)	(29.6%)
<i>Expenditure</i>	6,976	5,203	1,773	25.4%
<i>Fund Balance (est. *)</i>	933 *	799	(134)	(14.4%)

The revenue variance is primarily due to a lower reimbursement for Medicare claims payments (\$1.8 million), certified costs reports (\$23,000) and City administrative costs (\$47,000). Savings in expenditure resulted primarily from lower than anticipated Medicare claims. The lower number of claims resulted in approximately \$1.2 million of savings. The expenditure variance is also due to savings for City administrative costs, patient services and education services. In addition, there have been no charges for phase-down of the project since this activity is no longer taking place at this time. It should be noted that since the Medicare claims payment is a cost reimbursement grant, revenue is received based on reimbursement for services delivered by clinics that provide services to the elderly. It is likely that there is a variance between revenues and expenditures due to timing and receipt of revenue before the City is billed by the clinics. In addition, budgeted amounts related to Medicare claims are estimates given to the Municipal Health Services Program by the clinics. Thus, it is difficult for the clinics to forecast patient utilization of services for a number of reasons, such as program attrition.

The Overhead appropriation was not adequate to reflect actual expenditures. This caused the appropriation level to be exceeded by \$1,254. Thus on September 20, 2005, the City Council ratified a retroactive increase to the Overhead appropriation.

The fund balance ended the year slightly lower than the estimated level due to the lower than estimated revenue and expenditures associated with the Medicare claims payments, offset by lower than anticipated reimbursements for City administrative costs as discussed above.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Public Works Program Support Fund

The Public Works Program Support Fund accounts for Public Works administrative costs, department-wide compensated absences, and non-personal/equipment costs. An annual cost allocation plan is developed to assign overhead rates based on service levels received by each capital program. The funding source for this fund is transfers from the various capital funds that Public Works staff provides support. A compensated absence earned rate is also developed annually and charged to other city funds where Public Works employees provide service.

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***Public Works  
Program Support  
Fund***  
***(\$000s)***

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 14,372	\$ 11,270	\$ (3,102)	(21.6%)
<i>Expenditure</i>	13,872	11,633	2,239	16.1%
<i>Fund Balance (est. *)</i>	1,159 *	216	(943)	(81.4%)

The negative revenue variance of \$3.1 million is the result of an overhead rate that did not align with actual expenditure levels. The overhead rates assigned to the capital programs are intended to collect the equivalent of all expenditures made from this fund for capital program support and compensated absences. While this did not occur in 2004-2005, the rates will be adjusted accordingly for 2005-2006 to ensure that all 2004-2005 expenditures are reimbursed.

The positive expenditure variance reflects savings in every expenditure category, which include: administrative costs, Equality Assurance costs, non-personal/equipment, compensated time off, and other program support.

The 2004-2005 fund balance variance of \$943,000 is the result of lower than budgeted revenues, partially offset by lower than budgeted expenditure levels as discussed above.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Special Assessment Maintenance District Funds

The Special Assessment Maintenance District Funds account for the maintenance districts that were created to provide special services for areas or items not considered to be normal City maintenance. In 2004-2005, the City operated fourteen maintenance districts and three community facility districts.

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***Special Assessment  
Maintenance District  
Funds***

<b>(\$000s)</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 3,651	\$ 3,734	\$ 83	2.3%
<i>Expenditure</i>	5,180	3,970	1,210	23.4%
<i>Fund Balance (est. *)</i>	7,419 *	7,875	456	6.1%

The positive revenue variance of \$83,000 is the result of receipts that trended higher than anticipated in three districts, offset by lower than anticipated collections in one district. Revenues exceeded budgeted projections by \$46,000 in Maintenance District #1 (Los Paseos). The additional revenue resulted from a higher than expected increase in the property tax revenue unique to this district. Similarly, revenues exceeded budgeted projections by \$34,000 in Community Facilities District #1 (Capitol Automall), due to higher than anticipated funds received from the County used to pay debt service. Revenues also exceeded budgeted projects in Community Facilities District #8 (Communications Hill) by \$94,000, due to higher than anticipated taxable units within the district. In contrast, revenues were below budgeted projections by \$71,000 in Maintenance District #15 (Silver Creek Valley) as the result of credits issued during the year after an analysis of individual zone reserves. Revenue variances in the 13 remaining funds were below \$5,000, with an average variance of less than \$1,500.

Expenditure savings of approximately \$1.2 million reflect lower than anticipated maintenance costs in every district. Given the economic downturn, districts that renegotiated maintenance contracts received favorable bids. Further savings were generated as part of a concerted effort by maintenance district staff to cut costs while maintaining service levels. Three districts had large expenditure variances. In Maintenance District #15 (Silver Creek Valley), savings of approximately \$666,000 were generated because of work delays as a result of more stringent contract requirements. This had been anticipated, however, and estimates that were used to build the 2005-2006 Adopted Capital Budget varied from actual expenditures by only \$30,000. In

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Special Assessment Maintenance District Funds (Cont'd.)

Maintenance District #1 (Los Paseos), savings of approximately \$83,000 were generated as the result of a delay in the design and implementation of a renovation project.

In Community Facilities District #8 (Communications Hill), the developer decided to focus initial efforts on building more units and delaying the installation of landscape improvements for which the district would have provided maintenance. This renewed focus contributed to savings of \$144,000, and enables this new district to build up needed reserves faster than anticipated to ensure the best possible maintenance program.

The ending fund balance variance of \$456,000 is due to expenditure savings that exceeded the estimate by \$357,000, and higher than anticipated revenues (\$99,000).

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Stores Fund

This fund accounts for the purchase and issuance of materials and supplies consumed by departments for general operations.

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#### *Stores Fund*

<i>(\$000s)</i>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 4,425	\$ 3,004	\$ (1,421)	(32.1%)
<i>Expenditure</i>	4,435	4,050	385	8.7%
<i>Fund Balance (est. *)</i>	2,220 *	1,081	(1,139)	(51.3%)

The negative revenue variance (32.1%) primarily reflects an under collection from departments for purchases made on their behalf. The lower than budgeted departmental charges is primarily due to City Council approved cost containment measures. Purchases made from this fund eventually are charged out to departments, and the under collection will correct itself as inventory currently being warehoused is liquidated and departments are invoiced for those purchases. The actual level of revenue collection (\$3.0 million) was also a decrease of \$270,000 from the 2003-2004 level.

The Stores Fund positive expenditure variance of \$385,000 primarily resulted from lower than budgeted inventory purchases, personal services savings due to unfilled vacancies, lower than anticipated expenditures for non-personal/equipment, such as shredding costs, and rental equipment.

The negative ending fund balance (\$1.1 million) variance primarily reflects lower than estimated departmental charges.

It should be noted that the actual budgetary fund balance is \$319,000 lower than the fund balance reported in the 2004-2005 CAFR. The fund balance figure used for budgetary purposes does not include the change in beginning and ending Materials Inventory balances. This non-budgetary item is incorporated into the CAFR fund balance figure.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Storm Sewer Operating Fund

The Storm Sewer Operating Fund was established to provide for the acquisition, construction, reconstruction, maintenance, and operation of the storm drainage system. With the establishment of the Storm Sewer Capital Fund in 1994-1995 (which is funded primarily through transfers from this fund), expenditures are focused on non-point source pollution reduction, along with the maintenance and operation of the storm drainage system.

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***Storm Sewer  
Operating  
Fund***  
**(\$000s)**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 14,550	\$ 14,710	\$ 160	1.1%
<i>Expenditure</i>	16,123	14,867	1,256	7.8%
<i>Fund Balance (est. *)</i>	2,962 *	4,322	1,360	45.9%

The positive revenue variance (\$160,000) is primarily due to higher than budgeted storm drainage assessments (\$167,000), partially offset by lower than estimated interest earnings (\$7,000).

Expenditure savings of \$1.3 million was primarily produced in the Environmental Services Department's Non-Personal/Equipment appropriation (\$513,000), the Department of Transportation's Non-Personal/Equipment appropriation (\$367,000), and vacancy savings in the Transportation Department (\$235,000). Rebudgets of \$180,000 in non-personal/equipment expenditure savings are recommended in this document for rebudget to 2005-2006 for continued urban runoff work related to maintaining the City's National Pollutant Discharge Elimination System permit requirements.

The ending fund balance ended the year \$1.4 million higher than the estimated levels. This variance was primarily due to lower than estimated expenditures and higher than anticipated revenues as discussed above.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Transient Occupancy Tax Fund

The Transient Occupancy Tax (TOT) is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is less than 30 days. The tax rate is currently 10%, six percent of which is placed in this fund and four percent of which is deposited in the General Fund. The uses of revenues from the TOT Fund are specified by City Ordinance and include grants and rental subsidies for arts and cultural programs as well as subsidies for the San José Convention and Visitors Bureau and Convention Facilities.

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***Transient Occupancy  
Tax Fund***

**(\$000s)**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 8,870	\$ 9,587	\$ 717	8.1%
<i>Expenditure</i>	8,274	8,044	230	2.8%
<i>Fund Balance (est. *)</i>	1,638 *	2,012	374	22.8%

Due to higher than expected receipts in the last half of the fiscal year, actual 2004-2005 revenues in the TOT Fund exceeded the budgeted amount by \$717,000.

When the 2004-2005 Adopted Operating Budget estimate (\$8.9 million) was developed, a 3.5% increase over the anticipated 2003-2004 year-end estimates was assumed. Revenues in 2004-2005 rebounded from 2003-2004 performance and ended the year 12.9% above the 2003-2004 actuals as compared to a 13.7% decline for 2003-2004 revenues over 2002-2003.

The positive expenditure variance of \$230,000 reflects savings in the Cultural Grant program. A portion of these savings (\$204,000) was included in the 2005-2006 Adopted Operating Budget. The remaining \$26,000 is recommended in this document to be rebudgeted in 2005-2006 for Cultural Grants.

TOT Fund tax revenue is by City Ordinance shared by three groups, the Convention Center Operation Subsidy (50%), the Convention Visitors Bureau (25%) and Cultural Grants (25%). This report, therefore, contains the proposed appropriation adjustment actions required to distribute excess collections to the three groups.

An increase of \$170,000 is recommended for the Convention Facilities Operation Subsidy. An increase of \$85,000 is recommended for the Convention and Visitor Bureau and \$111,000 to the Cultural Grants, which included \$26,000 in rebudgets.



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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Vehicle Maintenance and Operations Fund

The Vehicle Maintenance and Operations Fund accounts for the operation, maintenance and replacement of all City vehicles and equipment.

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***Vehicle Maintenance  
and Operations Fund***

<b>(\$000s)</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 19,587	\$ 17,326	\$ (2,261)	(11.5%)
<i>Expenditure</i>	22,651	20,307	2,344	10.3%
<i>Fund Balance (est. *)</i>	2,112 *	2,347	235	11.1%

The negative revenue variance of \$2.3 million primarily reflects lower than budgeted revenues from replacement charges and lower than budgeted vehicle maintenance and operations departmental charges. During 2004-2005, all general fleet vehicle replacements continued to be suspended. Some Police vehicles were purchased throughout the year, however savings were realized through improved efficiency and effectiveness of the Police fleet. The ongoing Police fleet size evaluation also lead to delays in the purchase of a number of vehicles. It should, however, be noted that efficient Police fleet vehicle rotation and management of Police marked sedans allowed for the continued deployment of safe and reliable vehicles. Thus, the revenues and associated expenditures for vehicle replacements are much lower than budgeted.

The positive expenditure variance of \$2.3 million primarily reflects savings in the vehicle replacement appropriation (\$1.9 million), and savings in parts and fuel purchases (\$300,000).

The positive ending fund balance variance (\$235,000) is primarily the result of lower expenditures, partially offset by lower than budgeted revenues.

It should be noted that the actual fund balance is \$1.7 million lower than the budgetary fund balance reported in the CAFR. The fund balance used for budgetary purposes does not include the change in beginning and ending Materials Inventory balances and Unrealized Gains and Losses for estimated liabilities. These non-budgetary items are, however, incorporated into the CAFR fund balance figure.

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## SPECIAL REVENUE FUNDS (CONT'D.)

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### Workforce Investment Act Fund

The Workforce Investment Act is a federal program that provides primary employment and training services to dislocated and low-income residents. This fund is a memo fund to the General Fund for governmental accounting purposes.

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***Workforce Investment  
Act Fund***

***(\$000s)***

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Percent Variance</b>
<i>Revenue</i>	\$ 22,032	\$ 12,485	\$ (9,547)	(43.3%)
<i>Expenditure</i>	20,511	15,947	4,564	22.3%
<i>Fund Balance (est. *)</i>	- *	(3,164)	(3,164)	N/A

On July 1, 2000 the Workforce Investment Act (WIA) replaced the Job Training Partnership Training Act (JTPA), and the City of San José assumed administration and fiscal liability for this program. There are three categories of funding under WIA which correspond to the three populations being served: Adult, Dislocated Worker, and Youth. San José's Workforce Investment Area receives grants from the State and federal governments for these three categories.

The variance between revenues and expenditures primarily reflects the timing difference in expense and revenue recognition. Some programs, such as the Rapid Response are funded for multiple years.

The fund ended the year with a negative unrestricted ending fund balance of approximately \$3.16 million due to the accounting treatment of federal reimbursements due to this program. The negative balance reflects the late posting of revenue and carryover encumbrances for committed expenses at the end of 2004-2005. Because revenue is received by the fund on a reimbursement basis, at year end, there was insufficient revenue recognized to the fund to cover the encumbered amount (\$3.7 million). Under the current WIA contract with the State, expenses will only be reimbursed when funds are actually spent, not just committed. When the encumbered amounts are actually expended, the revenue will become available to cover the costs.